COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5181-04
Bill No.: SS for HCS for HB 2357 w/ SA 1
Subject: Auditor, State; Boards, Commissions, Committees, Councils; Highway Patrol; Judges; Kansas City; Law Enforcement Officers and Agencies; Retirement - Local Government; Retirement - Schools; Retirement - State; Retirement Systems and Benefits - General; St. Louis; State Employees; Teachers
Type: Original
Date: May 5, 2010

Bill Summary: Modifies provisions relating to public retirement plans.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	$3,103,348	$9,151,519	$15,016,226
Total Estimated Net Effect on General Revenue Fund	**$3,103,348**	**$9,151,519**	**$15,016,226**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
All Other Funds	$3,103,348	$9,151,519	$15,016,226
Road Fund	$441,755	$1,606,625	$2,835,013
Total Estimated Net Effect on Other State Funds	**$3,545,103**	**$10,758,144**	**$17,851,239**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 26 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Section 105.676

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Department of Conservation** assume there will be no fiscal impact to their agencies.

Officials from the **Missouri State Employees' Retirement System (MOSERS)** assume the proposed legislation described in Fiscal Note No. 5181-01N (HB 2357) would, if enacted, affect all public employee retirement plans covered by Chapter 105, RSMo. The proposal would require any asset manager that invests in international equities of publicly traded foreign companies on behalf of the such plans, including the Missouri State Employees Retirement System (MOSERS), to attest semi-annually in a written statement to the board that they do not hold on behalf of the plan any stock of any foreign company that, according to a reputable independent research provider specializing in global security risk assessment, has active business ties to Iran, North Korea, Sudan and Syria that are non-humanitarian in nature.

The proposal would expire with respect to each individual country, irrespective of the countries that still remain prohibited, at such time that the President of the United States affirmatively and unambiguously states by means of, but not limited to, enacted legislation executive order or written certification from the President to Congress and the Department of State that no longer recognizes Iran, North Korea, Sudan or Syria as state sponsors of terrorism.

The legislation also contains provisions that would exempt the plan and board from any conflicting statutory obligations, including any such obligations with respect to choice of asset managers, investment funds, or investments for the plan's securities portfolios with respect to actions taken to be in compliance with, and including all good faith determinations regarding companies, as required by the legislation.

MOSERS Anti-Terrorism Policy
Under MOSERS' anti-terrorism governance policy, staff is required, at least annually, to contact the Department of Homeland Security, the State Department, the Commerce Department, the Justice Department, the Treasury Department, the Securities and Exchange Commission, and any other federal agency deemed to have useful information in accurately identifying companies that

ASSUMPTION (continued)

are supporting terrorism. Specifically, staff is required to request guidance from these agencies on countries and more specifically companies that are believed to be supporting terrorism. If any such information is received, staff is to compare that information with the list of companies in our current holdings. In the event that MOSERS is a holder of one of these companies, staff must immediately contact the manager of the specific investment account to bring the situation to their attention and discuss appropriate actions for divesting from the company. In addition, staff is to forward all information received from any of these federal government agencies to our investment managers so they can avoid making initial investments or divest of existing investments in companies that are identified as supporting terrorist activities. In addition, the portfolio is regularly screened by our custodian bank for any holdings that are prohibited by the Office of Foreign Asset Control within the U.S. Treasury Department. Finally, staff provides a report to the board on an annual basis that identifies any investment actions taken due to links to terrorist activities.

This policy is intended to avoid 1) punishing companies whose activities abroad are supported by the U.S. government; 2) punishing companies whose activities abroad do not further terrorism, 3) unnecessarily harming U.S. companies and jobs; and 4) compromising the board's fiduciary duties to the beneficiaries of the system. Recognizing the dynamic nature of this issue, staff is required to annually evaluate this policy to determine if changes need to be made to reflect recent developments.

Cost
The proposed legislation would mandate the hiring an "independent research provider" by each of our external money managers. For purposes of determining the fiscal impact, we assume that each asset manager will incur a cost of at least $15,000 for purchasing a list of scrutinized companies from a reputable service provider that specializes in global security risk assessment based on our previous experiences with such service providers. Such lists are proprietary and may not be shared among managers. MOSERS has over 44 asset managers that currently or may potentially invest in international equities of publicly-traded foreign companies. In addition, there are 155 individual hedge fund managers in our fund of funds portfolios that currently or may potentially invest in international equities of publicly-traded foreign companies. We also internally manage one real assets portfolio that could potentially invest in international equities of publicly-traded foreign companies, and would be required obtain the services of a specialty firm to cover that internally managed portfolio.

Based on the assumption that each asset manager would pass on the cost of the service provider to MOSERS through increased management fees, the fiscal impact of this legislation is estimated to be approximately $3,000,000 per year (200 x $15,000 = $3,000,000).

ASSUMPTION (continued)

In the past, MOSERS retained the services of independent research providers to further scrutinize the MOSERS investment portfolio. It has been our experience that research providers do not take responsibility for their information when it is being used as a divestment recommendation. In March 2009, the additional screening service was reviewed and the contract discontinued.

Oversight assumes the cost of the retirement plans reflects potential current operating expenses and may or may not be reflected in actuarial determinations.

Officials from the **MoDOT & Patrol Employees' Retirement System (MPERS)** assume this proposal adds Section 105.676 to the statutes, and would require any asset manager to any retirement system (plan) established by the state of Missouri or an political subdivision or instrumentality of the state to certify to the plan that they do not hold, on behalf of the plan, the stock of any foreign company that, according to a reputable independent research provider specializing in global security risk assessment, has active business ties to Iran, North Korea, Sudan, and Syria that are non-humanitarian in nature.

The effect of this law would be to require asset managers desiring to maintain a relationship with Missouri public pension systems to divest of the identified investments – linked to countries identified as state sponsors of terrorism. Or, alternatively would require the asset managers and the corresponding plans to sever such relationships. The bill contains a mandate that purports to trump the fiduciary duties of the trustees of the various public retirement systems. Access to the list required to screen companies is private. MPERS does not have access to this list.

MPERS's investment staff reviewed this legislation and compared investment returns of certain indexes over a three-year period (mid 2006 to mid 2009) to MPERS international portfolio. As the screening list is private, MPERS used the MIT Terror Free Fund run by the State of Missouri and the MSCI EAFE (Morgan Stanley Capital International - Europe Australia Far East) for comparative purposes. This analysis indicated that the terror free fund underperformed MPERS' actual performance and also significantly underperformed the passive international index. The estimated adverse negative fiscal impact for MPERS, if projected forward would be about $4 million dollars on an annual basis.

Oversight assumes the cost of the retirement plans reflects potential current operating expenses and may or may not be reflected in actuarial determinations.

ASSUMPTION (continued)

Officials from the **Public School Retirement System (PSRS)** assume PSRS/PEERS will incur recurring hard dollar expenses (at minimum $125,000 annually) related to this bill long-term. Additionally, the bill may limit the Systems' ability to invest in certain investment strategies longer term. This could result in lower investment income.

Oversight assumes the cost of the retirement plans reflects potential current operating expenses and may or may not be reflected in actuarial determinations.

Officials from the **County Employees' Retirement Fund (CERF)** assume it is possible for this proposal to have an effect on costs for the CERF. However, it is impossible to quantify these costs in advance. For example, their fund managers may have to charge an additional fee to monitor the requirements of the proposal.

Officials from the **Local Government Employees Retirement System (LAGERS)** assume the proposal mandates that each of the LAGERS external investment managers acquire research from an "independent research provider" if such manager currently or may potentially invest in international equities with companies that have business ties to publicly traded foreign companies. LAGERS assumes a cost of $15,000 for purchasing a list of scrutinized companies from the independent research firm. Based upon LAGERS 33 asset managers that currently have permission to invest in such securities the annual cost of these reports would be $495,000 per year. Based upon the assumption that each investment manager would pass on the cost to LAGERS via increased management fees, the estimated annual increase in investment expense would be $495,000.

Oversight assumes the cost of the retirement plans reflects potential current operating expenses and may or may not be reflected in actuarial determinations.

ASSUMPTION (continued)

Sections 29.212, 56.809, 70.605, 104.190, 104.480 and 169.020

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **MoDOT & Patrol Employees Retirement System** assume there will be no fiscal impact to their agency.

Officials from **Local Government Employees' Retirement System** assume this proposal may be a duplicative cost to Missouri Citizens. In complying with Section 70.615.18 RSMo., the Board of Trustees receives an annual audit within 4 months of the fiscal year-end at a cost of approximately $42,500. Any additional audits of the same period would be duplicative cost to Missouri citizens. The amount of the duplicative cost would be contingent upon the frequency of audits and hours committed to the project.

Officials from the **County Employees' Retirement System** assume there will be no fiscal impact to their agency.

Officials from the **Department of Conservation** and **Department of Labor and Industrial Relations** assume there will be no fiscal impact to their agency.

Officials from the **Missouri State Employees Retirement System** assume this proposal would, if enacted, allow the state auditor to audit public employee retirement plans in the state of Missouri once every three years.

This proposal carries no fiscal impact to their agency.

Officials from the **Public School Retirement System (PSRS/PEERs)** assume in complying with Section 169.020 RSMo., the Board of Trustees receives an annual audit within 4 months of the fiscal year-end at a cost of approximately $51,400. While PSRS/PEERs does not object to any review of their systems and has always cooperated fully with the State Auditor's Office, their members, the media and the public, any additional audits of the same period would be duplicative in nature and result in duplicative cost to the Missouri teachers and school districts. The amount of the duplicative cost would be contingent upon the frequency of audits and hours committed to the project.

This proposal would have no material fiscal impact on the systems.

ASSUMPTION (continued)

Sections 104.1091, 476.521, 476.527 and 476.529

The **Joint Committee on Public Retirement** indicates that this legislation does represent a "substantial proposed change" in future plan benefits as defined in Section 105.660(5). Therefore, an actuarial cost statement as defined in Section 105.665 must be provided prior to final action on this legislation by either legislative body or committee thereof.

Pursuant to Section 105.670, this actuarial cost statement must be filed with 1) the Chief Clerk of the Missouri House of Representatives, 2) the Secretary of the Senate and 3) the Joint Committee on Public Employee Retirement as public information for at least (5) legislative days before final passage of the bill.

An actuarial cost statement for this legislation has not been filed with the Joint Committee on Public Employee Retirement. It would be impossible to accurately determine the fiscal impact of this proposed legislation without the actuarial cost statement prepared in accordance with Section 106.665, RSMo.

In response to a similar proposal, SB 1048 (5283-01n), officials from the **Missouri State Employees's Retirement System (MOSERS)** assume the proposed legislation would, if enacted, create a new tier defined benefit plan for members of the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) hired on or after January 1, 2011. As it affects MOSERS, the new tier plan would include all new employees hired on or after January 1, 2011, as members of the MSEP 2000 (which includes the General Employee Plan, the Legislative Plan, and the Statewide Elected Official Plan) and the Judicial Plan.

The tables that follow illustrate the differences in the current level of benefits afforded to state employees as compared to the proposed new tier defined benefit plan for members of the MSEP 2000 and Judicial Plan hired on or after January 1, 2011.

ASSUMPTION (continued)

New Tier for Future Hires
Employed On or After January 1, 2011
General Employee Plan

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 62/5 yrs. service Age 48 (Rule of 80)	Normal Retirement Eligibility Age 67/10 yrs. service Age 55 (Rule of 90)
Early Retirement Eligibility Age 57/5 yrs. service	Early Retirement Eligibility • Age 62/10 yrs. service
Vesting • 5 years	Vesting • 10 years
Member Contributions • None	Member Contributions • 4% of pay (with 4% interest on refunds)
Purchased Service • Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

New Tier for Future Hires
Employed On or After January 1, 2011
Statewide Elected Official Plan

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 55/4 yrs. service Age 50 (Rule of 80)	Normal Retirement Eligibility Age 62/4 yrs. service Age 55 (Rule of 90)
Member Contributions • None	Member Contributions • 4% of pay (with 4% interest on refunds)
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

New Tier for Future Hires
Employed On or After January 1, 2011
Legislative Plan

Present Benefits	Alternatives For Consideration
Normal Retirement Eligibility Age 55 with 3 biennial assemblies Age 50 (Rule of 80)	Normal Retirement Eligibility Age 62 with 3 biennial assemblies Age 55 (Rule of 90)
Member Contributions • None	Member Contributions* • 4% of pay (with 4% interest on refunds)
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

New Tier for Future Hires
Employed On or After January 1, 2011
Judicial Plan

Present Benefits	Proposed Benefits
Normal Retirement Eligibility Age 62/12 yrs. service Age 60/15 yrs. service Age 55/20 years service	Normal Retirement Eligibility Age 67/12 yrs. service Age 62/20 yrs. service
Early Retirement Eligibility Age 60 <15 yrs. service Age 62 <12 yrs. service	Early Retirement Eligibility Age 67<12 yrs. service Age 62<20 yrs. service
Normal Form of Payment Unreduced 50% Survivor Option	Normal Form of Payment Straight life (reduced survivor options)
Member Contributions None	Member Contributions* 4% of pay (with 4% interest on refunds)
In-Service COLA Members who work beyond age 60 have increased benefits upon retirement.	In-Service COLA None
Purchased Service Military and other full-time, nonfederal, governmental service	No Service Purchases

ASSUMPTION (continued)

This proposal would change the normal retirement eligibility for all classifications to coincide with the current ultimate eligibility age of 67 for unreduced social security benefits for those born after 1959. "Rule of 80" would be changed to "Rule of 90" and the corresponding minimum eligibility age would increase from age 48 or 50 to age 55. The age for early retirement for general employees would increase from age 57 to age 62. Provisions also exist that would establish the mandatory retirement age for highway patrol officers at age 62 rather than the present age 60.

The proposal would increase five-year vesting to ten year vesting for general employees and it would establish member contributions for all classifications at 4% of pay with 4% interest paid on member accounts at the end of the fiscal year based on the beginning fiscal year balance. Refunds to qualifying former employees would be paid within 90 days of termination. In the event such refunds are paid, members would forfeit their credited service and future rights to retirement benefits from the system. In the event a member dies, his or her beneficiary would receive a refund equal to the amount of such contributions less any retirement benefits received by the member unless an annuity is payable to a survivor as a result of the member's death.

The legislation would also eliminate subsidized service purchase provisions for all new hires, which would do away with military and other full-time, nonfederal governmental service purchases, as well as the portability provisions that was enacted with the MSEP 2000.

As it pertains to judges, in addition to the changes previously outlined regarding normal and early retirement eligibility, member contributions, and service purchases, the proposal would eliminate the unreduced joint and 50% survivor option and in-service cost-of-living adjustments (COLAs) that are presently available in the Judicial Plan. This change would mirror the provisions that were adopted in the MSEP 2000 for the general population (reduced survivor options would be available). Lastly, the provisions that allow a retired judge to return to work in a benefit eligible position covered by another state-sponsored retirement plan would be changed to no longer allow such judge to receive an annuity from the Judicial Plan while working simultaneously in a benefit eligible position. (A judge would be eligible to accrue service under the other plan.) This change would also mirror the provisions adopted in the MSEP 2000 covering the general population.

The proposal also contains a provision relating to member contributions for current active employees earning in excess of $100,000 per annum. Under the proposal, in addition to the 4% of pay member contribution outlined for future hires, any current employee or judge who receives gross monthly earnings of $8,334 (approximately $100,000 per annum) would also be required to contribute 4% of pay.

ASSUMPTION (continued)

In regard to survivor options, provisions have also been included that would adjust the reduction factors used in calculating the costs associated with survivor options in the both the MSEP and Judicial Plans to reflect the increase in normal retirement eligibility to age 67.

Lastly, the legislation contains provisions that would allow the general assembly to alter, amend, increase or decrease the benefits for those members hired on or after January 1, 2011 for service rendered subsequent to the change.

Cost Savings
The tables that follow illustrate the financial impact of the alternative new tier defined benefit plan for both the MSEP and the Judicial Plan.

**Impact on the MSEP
Contribution Rate**

FY2010-11 Contribution Rate	Present Benefits % of Payroll	Proposed Benefits % of Payroll	Increase/(Decrease) % of Payroll
Normal Cost	8.77%	8.68%	(0.09)%
Member Contribution Rate	0.00	(0.32)	(0.32)
UAAL (30 yr. amortization)	5.04	5.04	0.00
Change in UAAL (20 yr. amortization)		0.00	0.00
Total Contribution Rate	13.81%	13.40%	(0.41)%

**Impact on the MSEP
Funded Status**

UAAL $ Millions (6/30/09)	$1,619	$1,619	$0
Percent Funded	83.0%	83.0%	0.0%

ASSUMPTION (continued)

Projected Change in
Annual MSEP Contributions

Years Out	FY Ending	Projected Payroll (Millions)	Estimated Dollar Change (Millions)	% of Payroll Change
1	2011	$2,082	$ (8.4)	(0.41)%
5	2015	2,436	(53.7)	(2.20)
10	2020	2,964	(109.6)	(3.70)
15	2025	3,606	(169.2)	(4.69)
20	2030	4,388	(232.9)	(5.31)
Ultimate				(5.79)%

The long-term affect of the proposed changes would be a decrease in the total normal cost of 1.79% of payroll from the current 8.77% of payroll to 6.98% of payroll. With the new 4% of payroll member contributions, the long-term effect on the employer normal costs would be a decrease of 5.79% of payroll. This decrease would emerge over time as new employees replace the existing workforce.

Impact on the Judicial Plan
Contribution Rate

FY2010-11 Contribution Rate	Present Benefits % of Payroll	Proposed Benefits % of Payroll	Increase/(Decrease) % of Payroll
Normal Cost	20.64%	20.42	(0.22)%
Member Contribution Rate	0.00	(4.00)	(4.00)
UAAL (30 yr. amortization)	39.39	39.39	0.00
Change in UAAL (20 yr. amortization)		0.01	0.01
Total Contribution Rate	60.03%	55.82	(4.21)%

ASSUMPTION (continued)

Impact on Judicial Plan
Funded Status

UAAL $ Millions (6/30/09)	$287.8	$287.8	$0
Percent Funded	22%	22%	(0.00)%

Projected Change in Judicial Plan
Annual Contributions
($ Millions)

Years Out	FY Ending	Projected Payroll (Millions)	Estimated Dollar Change (Millions)	% of Payroll Change
1	2011	$47	$(2.0)	(4.21)%
5	2015	55	(3.4)	(6.11)
10	2020	67	(5.5)	(8.11)
15	2025	82	(7.7)	(9.41)
20	2030	100	(10.1)	(10.11)
Ultimate				(10.55)%

The long-term effect of the proposed changes would be a decrease in total normal cost of 6.55% of payroll from the current 20.64% of payroll to 14.09% of payroll. With the new 4% of payroll member contributions, the long-term effect on the employer normal cost would be a decrease of 10.55% of payroll. This decrease would emerge over time as new employees replace the existing workforce.

ASSUMPTION (continued)

Officials from the **MoDOT & Patrol Employees Retirement System (MPERS)** assume other than as noted below, the fiscal impact of a new tier of benefits remains as stated in the original fiscal note for Senate Bill 1048.

The impact of eliminating the BackDROP provision for new hires covered under the proposed new tier to the Year 2000 Plan is unknown. While it is difficult to determine definitively, the indications are that the BackDROP was cost neutral to cost saving under the existing plan. The proposed plan pushes eligibility to a later age. It is possible that because of the later eligibility that the BackDROP feature will be less used. If that is the case, the elimination of that feature may not have a measurable effect on system costs. However, if that feature continues to be heavily used and results in member delaying their retirement even further (beyond the new eligibility requirements), then it is possible that the elimination of that feature could result in increase system costs.

It was initially thought that the elimination of the BackDROP feature would likely not have a large impact on the proposed new tier. However, there is a possible range when showing the sensitivity of the cost to the retirement pattern (and removal of the BackDROP). The actual effect on the retirement pattern would be a guess, but for purposes of sensitivity testing, we would probably increase the pattern by 5% in the first few years of eligibility and decrease it by 5% in the following few years of eligibility.

As stated in an addendum to fiscal note 5283-01n, we have just completed the installation of a new pension administration system. This new system will require major programming changes by an outside vendor to implement the design changes outlined in SB 1048.

As the bill is currently written, our vendor has estimated that it will take at least 6 months to make the program changes at an estimated cost of approximately $150,000. Since we are currently a non-contributory system, adapting our system to accommodate the collection and refund of contributions is no small programming task. Once the programming is complete, the vendor and MPERS staff must test the entire system to ensure that the program changes have been correctly implemented. It could take at least one or two additional month, just to test the changes. MPERS would request that the sponsor consider incorporating an option for delayed assessment of employee contributions to July 2011 to provide MPERS, if needed, time to ensure that the program changes are adequately implemented and tested. Such an option would not impact MOSERS.

ASSUMPTION (continued)

Oversight assumes the following savings in this portion of the proposal .

Projected Employer Contributions MPERS

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
FY 11	$167,776,154	41.27%	$167,334,399	41.16%	$441,755
FY12	$182,453,304	43.26%	$180,846,679	42.86%	$1,606,625
FY13	$207,009,437	47.31%	$204,174,424	46.63%	$2,835,013

In FY14 the savings would be $4,128,358, FY15 the savings would be $5,537,429, FY16 the savings would be $7,034,821, FY17 the savings would be $8,603,687, FY18 the savings would be $10,254,833, FY19 the savings would be $11,981,041, and FY20 the savings would be $13,812,201.

Projected Employer Contributions MOSERS

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
FY11	$287,592,997	13.81%	$281,553,752	13.52%	$6,039,245
FY12	$321,621,017	14.85%	$303,861,473	14.03%	$17,759,544
FY13	$358,621,017	15.93%	$329,755,755	14.64%	$29,056,347

In FY14 the savings would be $40,525,721, FY15 the savings would be $51,404,417, FY16 the savings would be $62,835,201, FY17 the savings would be $73,780,687, FY18 the savings would be $85,227,234, FY19 the savings would be $96,616,442, and FY20 the savings would be $107,891,211.

Projected Employer Contributions Judicial

Fiscal Year	Before Proposed Changes		After Proposed Changes		Difference
FY11	$28,411,449	60.03%	$28,243,997	59.68%	$167,452
FY12	$29,442,829	59.82%	$28,896,335	58.71%	$546,494
FY13	$30,419,162	59.43%	$29,443,057	57.52%	$976,105

In FY14 the savings would be $1,428,645, FY15 the savings would be $1,894,730, FY16 the savings would be $2,353,072, FY17 the savings would be $2,882,045, FY18 the savings would be $3,414,560, FY19 the savings would be $3,936,824, and FY20 the savings would be $4,472,051.

ASSUMPTION (continued)

Sections 104.1500, 104.1502, 104.1504 & 104.1506

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this section of the proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **MoDOT & Patrol Employees Retirement System (MPERS)** assume Sections 104.1400 to 104.1414 have been replaced by Sections 104.1500 to 104.506 which creates the Missouri State Retirement Investment Board to manage assets for the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) and possibly other Missouri pension systems. However, the bill would preclude the Missouri Public School Retirement System and the Public Education Employee Retirement System (PSRS and PEERS) and the Missouri Local Government Employee's Retirement System (LAGERS) from contracting with this new retirement investment board.

The investment board's business would be limited to providing trust services, investment management services and investment advisory services to the participating systems. The investment board would be required to establish a fee schedule to provide revenues sufficient to cover staffing and operating costs, and initial capital would be provided by the MOSERS and MPERS trust funds in equal portions.

The business and affairs of the investment board would be managed by a board of trustees consisting of seven individuals, with the executive director of MOSERS, the executive director of MPERS, and the commissioner of administration being ex officio members. Initially, the other four members would be appointed by the governor from a list of ten nominees submitted by the executive directors of MOSERS and MPERS and require Senate consent.

From a technical perspective, the word "board" is used to define both the Board of Trustees and the investment board itself throughout the bill. This makes it difficult to follow the statutes and clearly understand the roles and responsibilities of each party.

Generally speaking, this proposed Retirement Investment Board would be considered to work to the financial advantage of the state of Missouri over the long term. Net cumulative savings of $27 million in the first year and, over a five-year period, a cumulative $149 million, are largely due to an expectation of increased investment performance and economies of scale associated with consolidation of two investment programs. The expected increase in investment performance would be attributable to the ability of a professional investment staff/board to make strategic investment decisions and add additional asset diversification to the combined portfolios.

ASSUMPTION (continued)

While we are unable to predict the management/staffing structure the new board of trustees would establish, it is expected that there would be administrative cost savings in combining the investment programs. At the least, the investment operations cost for the new trust would be cost neutral compared to current systems' investment operations expenses.

In a similar proposal, SB 1050 (5257-01n), officials from the **Missouri State Employees Retirement System (MOSERS)** assume The proposed legislation described in Fiscal Note No. 5257-01N (SB 1050) would, if enacted, create a pension trust company to manage assets for the Missouri State Employees' Retirement System (MOSERS) and the MoDOT and Patrol Employees' Retirement System (MPERS) and possibly other Missouri pension systems; however, the bill would preclude the Missouri public school retirement system and the public education employee retirement system (PSRS and PEERS) and the Missouri local government employee's retirement system (LAGERS) from contracting with this new pension trust company.

Under the proposal, MOSERS and MPERS would be authorized to establish the "Missouri Pension Trust Company" for the purpose of efficiently and professionally managing the investment of the trust assets of each system. The company's business would be limited to providing trust services, investment management services and investment advisory services to the participating systems. The company would be required to establish a fee schedule to provide revenues sufficient to cover staffing and operating costs, and initial capital would be provided by the MOSERS and MPERS trust funds in equal portions.

The business and affairs of the company would be managed by a board of directors consisting of seven individuals, with the executive directors of MOSERS and MPERS being two of the seven. Initially, the other five members would be appointed by the governor from a list of ten nominees submitted by the executive directors of MOSERS and MPERS. At the onset, director terms would be staggered in duration with each of the five appointed members eventually serving five-year terms. The qualifications for appointed director positions would include at least five years experience in the investment business, banking or finance including public investments, securities, and economics. The board of directors would be responsible for overseeing the pension trust company's business including:

Establishing business objectives
Establishing investment policies
Meeting the needs of the participating systems
Hiring a chief executive officer and retaining or authorizing the hiring of other staff

Upon the issuance of a certification by the division of finance pursuant to statute, MOSERS and

ASSUMPTION (continued)

MPERS would be able to enter into appropriate agreements with the company to provide for the company's control over the investment management of the two systems. The transition plan would need to comply with a business plan approved by the director of the division of finance.

Under the proposal, any assets transferred to the company from the participating retirement systems together with any proceeds and reinvestments could be invested as a single pool with appropriate accounting to identify the proportionate interests of each system in particular assets, or asset classes. The assets held in the collective trust would be for the exclusive purpose of satisfying the obligations of each participating system to pay retirement and other benefits pursuant to applicable laws and plan documents for each system and for paying administrative expenses associated with satisfying such obligations. The company would also make payments to participating systems at the direction of an authorized person from each system without liability to ensure the directive is made under provisions of the benefit administration law or plan provisions. The company would not be responsible for the administration of any benefits provided by a participating system.

Generally speaking, this legislation would be considered to work to the financial advantage of the state of Missouri over the long term. Net cumulative savings of $27 million in the first year and, over a five-year period, a cumulative $149 million, are largely due to an expectation of increased investment performance and economies of scale associated with consolidation of two investment programs. The expected increase in investment performance would be attributable to the ability of a professional investment staff/board to make strategic investment decisions and add additional asset diversification to the combined portfolios. While we are unable to predict the management/staffing structure the new board of directors would establish, it is expected that there would be administrative cost savings in combining the investment programs. At the least, the investment operations cost for the new trust would be cost neutral compared to current systems' investment operations expenses.

ASSUMPTION (continued)

Components of the total estimated net savings are:

Savings

Custody Fee Savings – Today, each system contracts with a custodian bank for custody services for the assets. Consolidation of assets calls for only one custodian. While there are some cost increases due to the custodian handling more accounts, the overall effect is an elimination of nearly 60% of the cost of one custodian for an estimated annual savings of $124,169.

Consulting Fee Savings – Today, each system contracts with a general asset consultant for investment research, data gathering, independent review, due diligence on internally managed funds. With the consolidation of assets, only one consultant would be needed, saving $225,000 annually.

Manager Fees Savings - A consolidated asset base means that the incremental dollars would be managed at the lowest marginal rate effective in the managers tiered fee structure. A larger asset base is also expected to increase negotiating power for lower management fees in the future. In the traditional investment management industry, fees are based on dollars under management; therefore a larger asset base facilitates fee savings when considered on the basis of total dollars invested.

Increase in Earnings

The most significant fiscal impact of combining assets for investment purposes would be an expected increase in investment performance. While an increase in future returns is not a “given”, historical results indicate a strong possibility of substantial gains in investment earnings overall. Investment returns for MOSERS and MPERS were compared for various periods. The long-term (since 1991) excess return was calculated at 1.99%. Additional investment earnings of 1.99% on the 12/31/09 market value of MPERS assets would produce an increase of approximately $27 million annually in investment earnings for the pension trust.

One-Time Transition Costs

In the first year there would be transition costs for portfolio transactions (trading) in order to merge the assets into one investment pool. Transaction (trading) costs cannot be avoided when consolidating investment portfolios of the two systems.

ASSUMPTION (continued)

Sections 169.270, 169.280, 169.301, 169.324 & 169.328

In response to a similar proposal, HB 2221, Fiscal Note 5130-01, the **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Public School Retirement System** and **Kansas City Public School Retirement System** assume there will be no fiscal impact to their agencies.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE			
Savings - Net decrease in annual contributions	$3,103,348	$9,151,519	$15,016,226
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$3,103,348**	**$9,151,519**	**$15,016,226**
ALL OTHER FUNDS			
Savings - Office of Administration - Net decrease in annual contributions	$3,103,348	$9,151,519	$15,016,226
Savings - Department of Transportation & Highway Patrol - Net decrease in annual contributions	$441,755	$1,606,625	$2,835,013
ESTIMATED NET EFFECT ON OTHER FUNDS	**$3,545,103**	**$10,758,144**	**$17,851,239**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Section 105.676

This bill requires any asset manager who invests in international equities of publicly-traded foreign companies on behalf of any retirement system established by the State of Missouri or any political subdivision to attest semiannually in a written statement to the respective retirement board that the manager does not hold on behalf of the plan the stock of any foreign company that, according to a reputable independent research provider specializing in global security risk assessment, has active business ties to Iran, North Korea, Sudan, or Syria that are nonhumanitarian in nature.

The provisions of the bill will expire if the President of the United States affirmatively and unambiguously states by means of, but not limited to, enacted legislation, executive order, or written certification that the United States Department of State no longer recognizes Iran, North Korea, Sudan, or Syria individually as a state sponsor of terrorism.

Sections 104.1091, 476.521, 476.527 and 476.529

This act creates a different retirement plan for any person who becomes a state employee on or after January 1, 2011. To be eligible for normal retirement under this plan, employees will be required to reach age sixty-seven and have at least ten years of service or reach age fifty-five with the sum of the member's age and service equaling at least ninety, members of the general assembly will be required to reach age sixty-two and complete at least three full biennial assemblies or reach age fifty-five with the sum of the member's age and service equaling at least ninety, and statewide elected officials will be required to reach age sixty-two and complete at least four years of service or reach age fifty-five with the sum of the official's age and service equaling at least ninety. Employees must work for the state for ten years to vest in the retirement system. Members of this retirement plan will be required to contribute four percent of their compensation to the retirement system. Members will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment, their military service, or transfer credit from other public retirement plans. The employee contribution rate, the benefits under the year 2000 plan, and any other provision of the year 2000 plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change.

Effective January 1, 2011, the mandatory retirement age for uniformed members of the Highway Patrol will be increased from sixty to sixty-two.

DESCRIPTION (continued)

The act creates a different retirement plan for any person who first becomes a judge on or after January 1, 2011. Judges will be required to reach age sixty-seven and have at least twelve years of service or reach age sixty-two and have twenty years of service before they are eligible for normal retirement. If a judge retires at age sixty-seven with less than twelve years of service, or at sixty-two with less than twenty years service, their retirement compensation will be reduced proportionately. Judges in this retirement plan will be required to contribute four percent of their compensation to the retirement system. Judges will not be able to purchase credit in the retirement plan for their past non-federal full-time public employment or their military service. Judges under this plan who continue to work after their normal retirement date will not have cost-of-living increases added to their retirement compensation for the period of time between their eligibility for retirement and their actual retirement date. When a retired judge under this plan dies, their beneficiary will not receive an amount equal to fifty percent of the judge's retirement compensation. Instead, judges will make a choice at retirement among the benefit payment options, that includes options for the amount received by the beneficiary. The employee contribution rate, the benefits under the judicial retirement plan, and any other provision of the judicial retirement plan may be altered, amended, increased, decreased, or repealed, but such change will only apply to service or interest credits after the effective date of the change.

This act prohibits a retired judge who becomes employed after January 1, 2011, as an employee eligible to participate in the MOSERS retirement plan from receiving their judicial retirement benefits while they are employed. Any judge who serves as a judge while he or she is receiving their judicial retirement is prohibited from receiving their judicial retirement while serving as a judge. A judge who serves as a senior judge or senior commissioner while receiving judicial retirement will continue to receive judicial retirement and additional credit and salary for their service.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
MoDOT & Patrol Employees' Retirement System
Local Government Employees Retirement System
County Employees Retirement System
Department of Conservation
Department of Labor and Industrial Relations
Missouri Highway Patrol

VL:LR:OD (12/02)

SOURCES OF INFORMATION (continued)

Missouri State Employees Retirement System
Public School Retirement System
Department of Transportation
Local Government Employees' Retirement System
Department of Financial Institutions and Professional Registration
Office of Administration
    Division of Budget & Planning
Kansas City Public School Retirement System

Mickey Wilson

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Director
May 5, 2010